



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Eloy Elementary School District No. 11

As of April 21, 2005



Debra K. Davenport
Auditor General

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August 17, 2005

Governing Board
Eloy Elementary School District No. 11
1011 North Sunshine Boulevard
Eloy, AZ 85231-2178

Members of the Board:

In our November 23, 2004, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2003. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of April 21, 2005. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2004, audit reports and USFR Compliance Questionnaire. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's continued noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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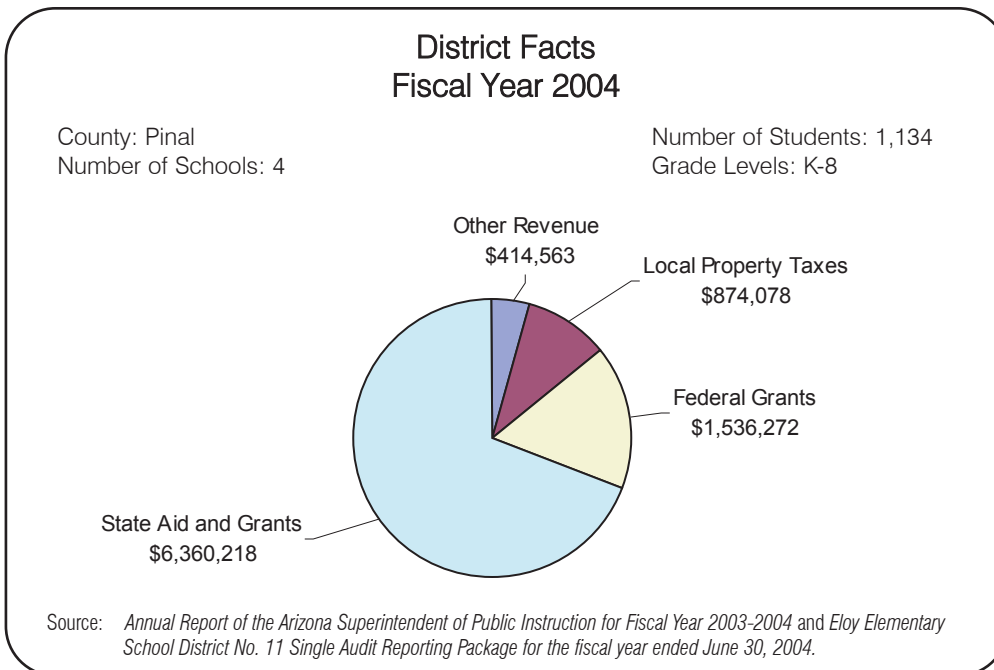
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INTRODUCTION

Eloy Elementary School District No. 11 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$9.1 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education. The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



The District should maintain accurate capital assets and stewardship lists

The District did not accurately account for or protect capital assets of over \$6.5 million.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, effective stewardship requires the District to have an accurate list of these assets to ensure they are properly identified and accounted for. However, the District did not accomplish this objective. For example, the District's capital assets list did not include all district assets, including those acquired through on-behalf payments by the Arizona School Facilities Board (SFB). In addition, the list included items valued at less than \$5,000 and was not organized by asset category (i.e., land and improvements, buildings and improvements, and equipment). Also, documentation supporting each asset's cost was not always retained or did not agree to the cost recorded on the capital assets list.

Also, the District's stewardship list included items valued at less than \$1,000, and the tag number on the list did not always agree with the tag number on the asset. Further, both the capital assets and stewardship lists did not include specific locations of assets, incorrectly included temporary tag numbers rather than the tag numbers attached to the assets, and included assets that had been disposed of. Finally, the District did not reconcile items added to the lists to capital expenditures annually.

Recommendations

The following procedures can help the District improve control over its assets and ensure that its capital assets and stewardship lists are accurate and complete:

- Maintain a capital assets list for items costing \$5,000 or more with useful lives of 1 year or more. If the District wishes to include items on the list valued at less than \$5,000, the District's Governing Board should adopt a formal written policy to establish a lower capital assets threshold.
- Maintain a stewardship list for equipment items costing between \$1,000 and \$5,000, or the District's capital assets threshold as adopted by the Governing Board if less than \$5,000.
- Include all capital assets acquired by the SFB for the District on the capital assets list.
- Include all required information for each item on the capital assets list and organize assets by asset category.

- Record capital asset items at actual cost, including ancillary charges such as sales tax, delivery, installation, assembly, and other incidental costs.
- Retain cost documentation, such as purchase orders, receiving reports, and vendor invoices, to support information recorded on the capital assets list, and verify that each asset's cost recorded on the list agrees with the supporting documentation.
- Attach a permanent tag with an identifying number to each equipment item costing \$1,000 or more, or specifically identify the asset on the list by some other means, such as a serial number.
- Update the capital assets and stewardship lists at least annually for items acquired, disposed of, or moved to different locations.
- Reconcile items added to the capital assets list during the fiscal year to capital expenditures for all funds, and make all necessary corrections.

Instructions for documenting capital asset cost information are included on USFR pages VI-E-3 through 5.

The form on USFR page VI-E-13 may be used to document the reconciliation of capital asset additions to capital expenditures.

The District should improve controls over payroll processing

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately. However, the District did not have adequate controls over payroll processing. Specifically, payroll responsibilities were not adequately separated among employees. In addition, the District did not maintain written work agreements or payroll action forms to document the employee's pay rate, and hourly employees' timecards were not always signed by the employee and the employee's supervisor. Also, the District did not require employees subject to the federal Fair Labor Standards Act (FLSA) to complete and submit timecards for performing extra duties; consequently, the District could not document that the stipend paid for the extra duties met the Act's minimum wage and overtime requirements. Further, the District did not have procedures to account for and secure unclaimed payroll checks.

The District's payroll procedures did not ensure compliance with the minimum wage and overtime requirements of the federal Fair Labor Standards Act or that hourly employees were paid accurately.

Recommendations

To help strengthen controls over payroll, the District should implement the following procedures:

- Separate responsibilities so that no one employee is responsible for preparing and authorizing payroll and distributing payroll checks.

USFR page VI-H-1 describes the appropriate separation of responsibilities for payroll processing.

- Prepare and retain written work agreements or payroll action forms for hourly employees to document employment terms including the employee's pay rate.
- Ensure that employees subject to FLSA complete a timecard each pay period that is signed by the employee, approved by the employee's supervisor, and retained to support the expenditures for all duties that the employee performed.
- Ensure that wages paid to employees subject to the FLSA meet the Act's minimum wage and overtime requirements.
- Establish and implement procedures to account for and secure unclaimed payroll checks.

The District should ensure the accuracy of its accounting records

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. To achieve this objective, management should ensure that its accounting records are accurate and complete. However, at the time of our review, the District had not reconciled its records of revenues, expenditures, and cash balances to the County School Superintendent's (CSS) records or ensure that the CSS had reconciled its records of cash balances to the County Treasurer's records for the last 9 months.

At the time of our review, reconciliations of the District's records to the County School Superintendent's and County Treasurer's records had not been prepared for the last 9 months.

Recommendations

To help ensure that the District's accounting records are accurate, the District should reconcile its records of cash balances by fund monthly, and its records of revenues, expenditures, and cash balances by fund, program, function, and object code at least at fiscal year-end to the CSS'. Written reconciliations should be prepared and all necessary corrections should be made. In addition, the District should review the CSS' reconciliations of the District's cash balances to the County Treasurer's records at least monthly and ensure that all necessary corrections were made.

The District should not make expenditures that appear to be gifts of public monies

The District is responsible for ensuring that taxpayer monies are spent only for appropriate district purposes. However, it appears the District did not fulfill its responsibility since it used public monies to purchase bottled water and flowers for employees. In addition, the District made the following expenditures, which appear to be gifts of public monies: perfect attendance rewards for students, a retirement party for the superintendent, and a buffet for students of the month.

The District had over \$4,300 of expenditures that may be considered gifts of public monies under Arizona Constitution Article 9, §7.

Recommendations

Public monies may not be spent on private individuals, unless there is a public purpose served by the expenditure and the value received by the public is not far exceeded by the amount paid. For expenditures that are not clearly for district operations, the Governing Board should evaluate the expenditure, determine that a public purpose is being served, and document that the public value expected to be received is not far exceeded by the amount being paid before such expenditures are made. The Governing Board's determination should be retained with the supporting documentation for the expenditure.